

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 196 – HB 190

March 18, 2014

**SUMMARY OF ORIGINAL BILL:** Enacts the “Tennessee Choice and Opportunity Scholarship Act”. Authorizes eligible students to apply for and receive scholarships to attend participating non-public schools. Requires students to meet certain eligibility requirements including, but not limited to, being zoned for or being currently enrolled in a school that is identified as being in the bottom five percent of schools in overall achievement data and meeting age and income requirements. Requires non-public schools to provide an annual notice of intent to participate to the Department of Education (DOE) and to comply with all other participation requirements, which include, but are not limited to, accepting the scholarship amount as payment in full for the cost of tuition and fees that would have been otherwise charged to the student; submitting to the DOE an annual financial audit; and conducting criminal background checks for employees.

Requires the DOE to administer the program and sets forth specific departmental administrative tasks including, but not limited to, providing annual notice of eligibility to the parents of eligible students; determining and approving initial and continuing eligibility for participating schools; and remitting scholarship payments to participating schools. Authorizes scholarship students to enroll in another participating school without loss of eligibility, if a participating school is deemed ineligible.

Requires the annual scholarship amount to be the lesser of the participating school’s annual tuition and fees or the amount of the required state and local Basic Education Program (BEP) funding per pupil. Requires students receiving the scholarship to continue to be counted toward the average daily membership (ADM) of the local education agency (LEA). Requires LEAs to continue funding their portion of the required BEP per pupil expenditure for participating students. Authorizes LEAs to retain any local funding above and beyond the BEP local match requirement. Requires any remaining funds to be retained by the DOE and the LEA, with specific amounts based on the LEA’s state and local BEP funding share division, if a participating school’s tuition and fees is less than the required state and local BEP per pupil expenditure (PPE).

Caps the scholarship program at 5,000 scholarships for FY13-14; at 7,500 scholarships for FY14-15; at 10,000 scholarships for FY15-16; and at 20,000 scholarships for FY16-17 and subsequent fiscal years.

## FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$173,000

Other Fiscal Impact – There will be annual shifts of state and local BEP funding from local education agencies to the non-public participating schools of the proposed program. Approximately \$15,842,500 is estimated to shift in FY13-14; \$24,356,300 is estimated to shift in FY14-15; \$33,285,000 is estimated to shift in FY15-16; \$68,230,000 is estimated to shift in FY16-17; and an amount estimated to exceed \$68,230,000 is estimated to shift in FY17-18 and subsequent fiscal years.

**SUMMARY OF AMENDMENT (014491):** Deletes and rewrites the bill such that the substantive changes are to Sections 4, 5, and 9. Requires participating schools to provide lunch to scholarship students at no cost or at a reduced cost pursuant to the income guidelines for the federal School Lunch Program. Requires that the LEA receive funds that otherwise would have been given to a participating school, if a student voluntarily leaves a participating school and enrolls in an LEA school. Requires the Department of Education to inform parents of eligible students of all available scholarship options and provide an opportunity for parents to apply to other participating schools in circumstances where the number of eligible students applying for a particular school in a particular grade exceeds the number of scholarships that are available. Authorizes additional scholarships to be given to students who reside in an LEA that contains one school that is in the bottom five percent of schools in overall achievement, and who meet all other eligibility requirements, if the number of scholarships that are awarded is less than the number of scholarships available.

## FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures - \$171,800

**Other Fiscal Impact – There will be annual shifts of state and local BEP funding from local education agencies to the non-public participating schools of the proposed program. An estimated \$16,405,000 will shift in FY14-15; \$25,222,500 will shift in FY15-16; \$34,470,000 will shift in FY16-17; and an amount exceeding \$34,470,000 will shift in FY17-18 and subsequent fiscal years.**

Assumptions for the bill as amended:

- DOE will require two new positions to administer the program beginning in FY14-15. One position will require a salary of \$80,000 with benefits of 18,144 for a total of \$98,144. A second position will require a salary of \$60,000 with benefits of \$13,608 for a total of \$73,608.
- The total recurring increases in state expenditures for personnel is estimated to be \$171,752 (98,144 + 73,608).

- The scholarship program will begin in the fall of 2014.
- Though the exact number of annually participating students is unknown, it is reasonably estimated that a minimum of 50 percent of the cap will be filled each year, beginning in FY14-15.
- In FY14-15, an estimated 2,500 students will participate; in FY15-16, an estimated 3,750 students will participate; in FY16-17, an estimated 5,000 students will participate; and in FY17-18 and subsequent fiscal years, over 10,000 students will participate.
- The following scholarship estimates by fiscal year have been provided by DOE: in FY14-15, \$6,562 per pupil; in FY15-16, \$6,726 per pupil; in FY16-17, \$6,894 per pupil; and in FY17-18 and subsequent fiscal years, an amount exceeding \$6,894 per pupil.
- In FY14-15, an estimated \$16,405,000 ( $\$6,562 \times 2,500$ ) will shift from LEAs to participating schools.
- In FY15-16, an estimated \$25,222,500 ( $\$6,726 \times 3,750$ ) will shift from LEAs to participating schools.
- In FY16-17, an estimated \$34,470,000 ( $\$6,894 \times 5,000$ ) will shift from LEAs to participating schools.
- In FY17-18 and subsequent fiscal years, an amount estimated to exceed \$34,470,000 will shift from LEAs to participating schools.
- A majority of LEAs are currently funding their students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain is \$1,111 per pupil in FY13-14 and is estimated to increase annually in each subsequent fiscal year.
- Each year, students leave and enter LEAs. As a result, LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population.
- LEAs will be able to use retained funding to offset any increase in local government expenditures.
- As the program grows, LEAs may be able to reduce local government expenditures; however, any decrease cannot be reasonably quantified.
- LEAs will not be required to pay for transportation to the participating schools.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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